



EXECUTIVE SUMMARY MODULE

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CHAPTER	ES-A: Introduction

ES-A.1 Purpose

- ES-A.1.1 The purpose of this Module is to:
- (a) provide an overview of the structure of Volume 4 (Investment Business);
 - (b) provide a summary of each Module; and
 - (c) outline the transition rules for the implementation of Volume 4.
- ES-A.1.2 The Bahrain Monetary Agency (“BMA”), in its capacity as the regulatory and supervisory authority for all financial institutions in Bahrain, has as its mission:
- (a) to ensure monetary and financial stability in the Kingdom of Bahrain; and
 - (b) to regulate, develop and maintain confidence in the financial sector.
- ES-A.1.3 As the single regulator, the BMA ensures the consistent application of regulatory standards in banking, insurance and capital markets, as well as encouraging an open and cooperative approach in dealing with financial institutions.
- ES-A.1.4 The supervision of the investment business sector in the Kingdom pays particular regard to the standards set by the International Organization of Securities Commissions (IOSCO). The BMA plays an important role in meeting stakeholders’ expectations – the principal stakeholders of the BMA are the Government of the Kingdom of Bahrain, regulated financial institutions, their clients, IOSCO and other relevant international organizations.
- ES-A.1.5 To carry out its responsibilities in relation to the investment business sector, the BMA has four supervisory objectives, namely:
- (a) to promote the stability and soundness of the sector;
 - (b) to provide an appropriate degree of protection to investors and clients of investment firms;
 - (c) to promote transparency and market discipline; and
 - (d) to reduce the likelihood of investment firms being used for financial crime (including money laundering activities).
- ES-A.1.6 The BMA issues regulations that investment firm licensees are legally obliged to comply with. These regulations have in the past been issued in the form of individual circulars. The circulars have now been redrafted into a comprehensive Rulebook. For the investment business sector, these rules and associated guidance are found under Volume 4 of the Rulebook.

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ES-A.2 Module History

ES-A.2.1 This Module was first issued in April 2006, as part of the first phase of Volume 4 (Investment Business). It is dated April 2006. All subsequent changes to this Module are annotated with the end-quarter calendar date in which the change was made: Chapter UG-3 provides further details on Rulebook maintenance and version control.

ES-A.2.2 A list of recent changes made to this Module is provided below:

Module Ref.	Change Date	Description of Changes

Superseded Requirements

ES-A.2.3 This Module does not supersede any previously issued circulars or other regulatory instruments.

ES-A.2.4 Guidance on the implementation and transition to Volume 4 (Investment Business) is given in Chapter ES-2.

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ES-1.1 Structure of Volume 4 (Investment Business)

ES-1.1.1 Volume 4 of the Rulebook covers the investment business sector, i.e. the provision of regulated investment services by investment firm licensees. It also includes requirements regarding approved persons; and the registration of those carrying on the business of an administrator.

ES-1.1.2 Volume 4 excludes representative offices of overseas investment firms, and ancillary service providers; these activities are covered by separate regulations (see AU-A.1.11 and AU-A.1.12). These regulations will later be incorporated into Volume 5 (Specialised Activities) of the BMA Rulebook, to be released in 2007.

ES-1.1.3 Volume 4 is made up of two volumes: Part A is the main Volume (comprising a range of Modules that contains all applicable Rules and Guidance), whilst Part B is an appendix Volume (containing a glossary of defined terms, BMA authorization forms, BMA reporting forms and supplementary information).

ES-1.1.4 Part A of Volume 4 is organized under the following headings:

- Introduction
- High Level Standards
- Business Standards
- Reporting Requirements
- Enforcement and Redress; and
- Sector Guides

ES-1.1.5 Including this Executive Summary Module, there are plans to issue 23 Modules for inclusion in Part A of Volume 3 (Insurance). It is planned to release Volume 4 in two phases: the first phase release was in April 2006, and comprised 11 Modules, including most of the key requirements. Remaining Modules will be issued in a second phase release, towards the end of 2006.

ES-1.1.6 Each Module covers a particular subject area – such as capital or conduct of business. The requirements are tailored according to the three categories of investment firm licensee provided for under the authorisation rules, reflecting the different risk profiles of these categories. Sector Guide Modules, to be released as part of the second phase towards the end of 2006, will summarise the key elements of the requirements for each of these 3 categories of investment firm, as well as summarise the additional requirements applicable to those investment firms operating purely on a Shari'a compliant basis.

ES-1.1.7 Part B of Volume 4 is organized under the following headings:

- Glossary
- Authorisation Forms
- Reporting Forms
- Supplementary Information

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ES-1.1 Structure of Volume 4 (continued)

- ES-1.1.8 Defined terms used in the Rulebook are underlined; their definitions can be found in the Glossary. Each Volume has its own Glossary, as definitions of terms used apply only to the Volume in question. It is possible for the same term to be used in a different Volume with a different meaning.
- ES-1.1.9 There are four authorisation forms, comprising (i) Form 1 (application for a license), which consists of two parts; (ii) Form 2 (application for the authorisation of a controller); (iii) Form 3 (application for approved person status); and (iv) Form 4 (application for registration).
- ES-1.1.10 When completed, Volume 4 will also contain 3 reporting forms: (i) Form QPR (Quarterly Prudential Return); (ii) Form AGR (Annual Group Return); and (iii) Form STR (Suspicious Transaction Report).
- ES-1.1.11 Finally, space is provided in Part B of Volume 4 for any supplementary information that may be of use to users of the Rulebook. For the time being, Part B contains various additional documents relevant to the Financial Crime Module, notably a copy of Bahrain's anti-money laundering legislation (Amiri Decree Law No. 4 of 2001).

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ES-1.2 Module UG (User’s Guide)

- ES-1.2.1 The User’s Guide Module contains introductory material relevant to users of Volume 4. Specifically, it covers (i) the status and application of the Rulebook (with specific reference to Volume 4); (ii) the structure and design of the Rulebook; and (iii) its maintenance, version control and access. These topics are covered in Chapters UG-1 to UG-3 respectively.
- ES-1.2.2 The Module contains mostly Guidance material – that is, material that is not binding on licensees, but instead simply helps inform particular Rules or provides other general information. Most of the Guidance material in Module UG consists of general information.
- ES-1.2.3 The only Rules are contained in Sections UG-1.2 and UG-1.4. Amongst other things, they specify that Rules have a binding effect, and that the contents of Volume 4 apply from its date of issue in April 2006, subject to any transition arrangements specified in Module ES (see Chapter ES-2).

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ES-1.3 Module AU (Authorisation)

ES-1.3.1 Module AU covers (i) the licensing of persons undertaking regulated investment services; (ii) the approval of persons undertaking controlled functions in licensees (approved persons); and (iii) the registration of persons carrying on the business of an administrator.

ES-1.3.2 The Module sets out when these three types of authorisation are required, and the associated authorisation conditions that have to be satisfied in order for authorisation to be granted.

ES-1.3.3 With respect to licensing, an investment firm license is required by all persons undertaking, by way of business, regulated investment services within or from the Kingdom of Bahrain. Regulated investment services are fully defined in Section AU-1.4, but in summary they cover the following activities:

- (a) dealing in financial instruments as principal;
- (b) dealing in financial instruments as agent;
- (c) arranging deals in financial instruments;
- (d) managing financial instruments;
- (e) safeguarding financial instruments (i.e. custodian);
- (f) advising on financial instruments;
- (g) operating a collective investment undertaking; and
- (h) acting as a financial trust service provider.

ES-1.3.4 There are 3 categories of investment firm license, determined by the regulated investment services undertaken. Category 1 investment firms may undertake all regulated investment services. Category 2 investment firms may undertake all regulated investment services, except the activity of dealing in financial instruments as principal. Finally, Category 3 investment firms may only undertake the activities of arranging or advising on financial instruments. Only category 1 and 2 investment firms may hold client assets.

ES-1.3.5 A licensee may hold itself out as an Islamic investment firm, but only if all its activities are Shari'a compliant. Islamic investment firms are required to comply with certain additional requirements, such as the need to appoint a Shari'a supervisory board.

ES-1.3.6 Module AU also deals with the requirements and conditions for approved persons, i.e. those wishing to undertake a controlled function in an investment firm licensee. Controlled functions are those of:

- (a) director;
- (b) chief executive or general manager;
- (c) head of function;
- (d) compliance officer;
- (e) Money Laundering Reporting Officer;
- (f) member of Shari'a Supervisory Board;
- (g) financial instruments trader; and
- (h) investment consultant or investment adviser.

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ES-1.3 Module AU (Authorisation) - continued

ES-1.3.7 The conditions for authorisation of approved persons are set out in Chapter AU-3.

ES-1.3.8 The requirements dealing with the registration of administrators are principally contained in Section AU-1.3 (the requirement to be registered) and AU-4 (the conditions to be satisfied for registration to be granted). The registration requirement applies to all those persons carrying on the business of an administrator; the conditions for registration cover matters such as relevant expertise, general suitability, and systems and controls. Registration consists of a basic screening; unlike licensees, registered persons are not subject to continuous on-going supervision.

ES-1.3.9 Finally, the Module also outlines (in Chapter AU-5) the information requirements and procedures that must be followed as part of the process for:

- (a) licensing;
- (b) approved persons; and
- (c) registration of administrators.

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ES-1.4 Module PB (Principles of Business)

- ES-1.4.1 The 10 Principles of Business covered in Module PB are a general statement of the fundamental obligations of all BMA investment firm licensees and approved persons. They have the status of Rules; and provide a basis for other, more detailed Rules elsewhere in Volume 4.
- ES-1.4.2 Principles 1 to 10 apply to activities carried out by licensees, including activities carried out through overseas branches. Principles 1 to 8 also apply to approved persons, in respect of the controlled functions for which they have been approved.
- ES-1.4.3 The Principles of Business are:
 Principle 1 – Integrity
 Principle 2 – Conflicts of Interest
 Principle 3 – Due Skill, Care and Diligence
 Principle 4 – Confidentiality
 Principle 5 – Market Conduct
 Principle 6 – Customer Assets
 Principle 7 – Customer Interests
 Principle 8 – Relations with Regulators/Supervisors
 Principle 9 – Adequate Resources
 Principle 10 – Management, Systems and Controls

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ES-1.5 Module HC (High-level Controls)

ES-1.5.1 This Module is to be issued towards the end of 2006, as part of the second phase release of Volume 4.

ES-1.5.2 When finalised, Module HC will outline the requirements that must be met by investment firm licensees with respect to:

- (a) the role and composition of Boards and Board committees; and
- (b) related high-level controls and policies.

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ES-1.6 Module AA (Auditors and Auditing Standards)

ES-1.6.1 Module AA contains regulations on the appointment and functions of auditors of investment firm licensees. It also contains requirements dealing with accounting standards to be applied by investment firm licensees.

ES-1.6.2 The auditor requirements deal with:

- (a) the appointment of auditors;
- (b) the removal and resignation of auditors;
- (c) audit partner rotation;
- (d) auditor independence; and
- (e) restrictions on the relationship between a licensee and its auditor.

ES-1.6.3 The Module also covers the BMA's requirements regarding access to auditors as well as auditors' access to outsourcing providers. In addition, the Module outlines requirements for licensees to arrange for their auditors to review their quarterly prudential returns, and compliance with Modules CL (Client Assets) and FC (Financial Crime).

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ES-1.7 Module GR (General Requirements)

ES-1.7.1 Module GR covers requirements dealing with areas not covered in other Modules. The areas covered are:

- (a) books and records;
- (b) corporate and trade names;
- (c) dividends;
- (d) client asset transfers;
- (e) controllers;
- (f) close links;
- (g) suspension of business;
- (h) appointed representatives;
- (i) professional indemnity coverage; and
- (j) BMA fees

ES-1.7.2 The above requirements apply to all categories of investment firm licensee, except for the professional indemnity requirement, which applies to Category 2 and 3 investment firm licensees only.

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ES-1.8 Module CA (Capital Adequacy)

- ES-1.8.1 Module CA contains regulations governing capital requirements for investment firm licensees, as well as what constitutes capital for regulatory purposes. These requirements are tailored to fit the different risk profiles of the different categories of investment firm licensees. The requirements apply to both Bahraini investment firm licensees and overseas investment firms (see Section CA-B.1)
- ES-1.8.2 Investment firm licensees are required to maintain their regulatory capital in excess of their regulatory capital requirements at all times. For Category 1 and 2 firms, their regulatory capital requirement is the higher of their Initial Capital Requirement and their Risk Based Capital Requirement. For Category 3 firms, their regulatory capital requirement is simply their Initial Capital Requirement.
- ES-1.8.3 Initial Capital Requirements are as follows:
- (a) Category 1 investment firms: BD 1,000,000
 - (b) Category 2 investment firms: BD 1,000,000 if undertaking the activity of safeguarding financial instruments (i.e. custodian), BD 250,000 in all other cases; and
 - (c) Category 3 investment firms: BD 125,000.
- ES-1.8.4 Risk Based Capital Requirements comprise the sum of a firm's Expenditure Requirement, Position Risk Requirement, Counterparty Risk Requirement and Foreign Exchange Risk Requirement. The actual amount of capital that is required to be held varies depending on the size of an institution's cost base and its various exposures. In practice, the Risk Base Capital Requirement of Category 2 firms, because they are not allowed to deal in financial instruments as principal (and thus incur position risk), would largely be determined by its Expenditure Requirement (and any currency mismatches between its assets and liabilities).
- ES-1.8.5 Specific requirements relating to underwriting exposures are to be developed later this year and will be included as part of the second phase release of Volume 4, towards the end of 2006.

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ES-1.9 Module BC (Business Conduct)

- ES-1.9.1 This Module set out minimum standards of good practice to be applied by investment firm licensees, when dealing with their clients. These comprise certain base requirements, supplemented by more detailed requirements in the form of an Investment Business Code of Practice.
- ES-1.9.2 The Investment Business Code of Practice covers various matters, relevant to contact throughout a customer relationship. They are:
- (a) overarching principles;
 - (b) client classification;
 - (c) marketing and promotion;
 - (d) accepting clients;
 - (e) suitability;
 - (f) disclosure of information;
 - (g) dealing and managing;
 - (h) reporting to clients;
 - (i) complaints;
 - (j) conflicts of interest;
 - (k) confidentiality; and
 - (l) an appendix, covering various specific matters to be addressed in promotional material, transaction confirmations and the like.
- ES-1.9.3 These requirements may be modified or supplemented over time, in response to evolving market practices or as issues arise.

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ES-1.10 Module CL (Client Assets)

- ES-1.10.1 This Module provides detailed rules and guidance with respect to the holding of client assets by investment firm licensees. They are aimed at ensuring the proper protection of such assets, to restrict the risk of client assets being commingled with investment firm licensee assets (without clients' consent), or otherwise misused.
- ES-1.10.2 As a general rule, client assets are required to be segregated from a firm's own assets, and client monies must be held in a client bank account. Various other restrictions and protections apply to client money, whilst the rules also apply certain reconciliation and reporting requirements.
- ES-1.10.3 Finally, the Module also contains certain requirements relating to the provision of custody services (Chapter CL-2), the treatment of assets when held as collateral (Chapter CL-3), controls surrounding the application of client mandates (Chapter CL-4), and rules regarding third party related distribution events (Chapter CL-5).



ES-1.11 Module RM (Risk Management)

- ES-1.11.1 This Module is to be issued towards the end of 2006, as part of the second phase release of Volume 4.
- ES-1.11.2 When finalised, the Module will provide detailed rules and guidance on risk management systems and controls required for investment firm licensees.

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ES-1.12 Module FC – Financial Crime

- ES-1.12.1 Module FC implements the Financial Action Task Force (FATF) recommendations on money laundering and special recommendations on terrorism financing that are relevant to the investment business sector in Bahrain.
- ES-1.12.2 The Module contains detailed requirements relating to:
- (a) customer identification;
 - (b) reporting;
 - (c) staff awareness and training;
 - (d) the appointment of a money laundering reporting officer;
 - (e) compliance monitoring;
 - (f) record keeping arrangements;
 - (g) segregation of duties;
 - (h) special measures for non-cooperative countries; and
 - (i) contact with relevant authorities.
- ES-1.12.3 Item FC (iv) in Part B of Volume 4 (Investment Business) provides further examples of transactions that may be suspicious or unusual.
- ES-1.12.4 In addition, Module FC has a chapter dealing with financial fraud, which imposes certain basic systems and control, and reporting requirements, in this area. These requirements apply to Category 1 and 2 investment firms only.

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ES-1.13 Module TC (Training and Competency)

ES-1.13.1 This Module is to be issued towards the end of 2006, as part of the second phase release of Volume 4.

ES-1.13.2 When finalised, the Module will provide detailed rules and guidance on training and competency requirements for employees of investment firm licensees.

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ES-1.14 Module GS (Group Supervision)

ES-1.14.1 This Module is to be issued towards the end of 2006, as part of the second phase release of Volume 4.

ES-1.14.2 When finalised, the Module will provide detailed rules and guidance addressing group risks, and how these may impact investment firm licensees. These are likely to include restrictions on intra-group transactions, and additional reporting and on-going supervision.

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ES-1.15 Module BR (BMA Reporting)

- ES-1.15.1 This Module is to be issued towards the end of 2006, as part of the second phase release of Volume 4.
- ES-1.15.2 When finalised, the Module will set out requirements relating to the provision of information to the BMA, as well as certain pre- and post-notification requirements.

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ES-1.16 Module PD (Public Disclosure)

ES-1.16.1 This Module is to be issued towards the end of 2006, as part of the second phase release of Volume 4.

ES-1.16.2 When finalised, the Module will contain certain provisions relating to public disclosures, such as the need to publish annual accounts.

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ES-1.17 Module EN (Enforcement)

- ES-1.17.1 This Module outlines enforcement powers and processes that may be applied by the BMA to address failures by investment firm licensees, approved persons or registered persons. The purpose of such measures is to encourage a high standard of compliance by all those authorised by the BMA, thus reducing risk to licensees' clients, counterparties and the financial system.
- ES-1.17.2 The enforcement measures contained in the Module are of varying severity and will be used in keeping with the BMA's assessment of the contravention, reserving the most serious enforcement measures for the most serious of contraventions.
- ES-1.17.3 The BMA's enforcement mechanisms include:
- (a) formal requests for information;
 - (b) investigations;
 - (c) formal warnings;
 - (d) directions;
 - (e) financial penalties;
 - (f) administration;
 - (g) cancellation of licence;
 - (h) cancellation of "fit and proper" approval; and
 - (i) cancellation of registration (for administrators).
- ES-1.17.4 A reminder of criminal sanctions contained in the BMA Law 1973 is also set out in Chapter EN-10.

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ES-1.18 Module DP (Dispute Resolution)

- ES-1.18.1 This Module is to be issued towards the end of 2006, as part of the second phase release of Volume 4.
- ES-1.18.2 When finalised, the Module will set out certain basic requirements regarding the treatment of client complaints by investment firm licensees, and the reporting of certain statistics relating to such complaints and their outcomes, to the BMA.

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ES-1.19 Module CP (Compensation)

ES-1.19.1 This Module provides space, for possible inclusion at a later date, a description of any investor protection scheme, should such a scheme be developed in cooperation with the industry.

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ES-1.20 Sector Guides (Modules C1, C2, C3 and IF)

ES-1.20.1 These Modules will be issued towards the end of 2006, as part of the second phase release of Volume 4.

ES-1.20.2 When finalised, these Modules will provide a summary – consisting solely of Guidance material – highlighting the key requirements applicable to the different categories of investment firms, as well as to those investment firms that operate solely on Islamic principles.

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ES-2.1 30 April 2006

ES-2.1.1 Investment firm licensees issued a license after 30 April 2006, but before 31 December 2006, must comply with the requirements contained in the first phase release of Volume 4 (Investment Business) from the date of issue of their license.

ES-2.1.2 The earliest effective date of Volume 4 (Investment Business), therefore, is 30 April 2006.

ES-2.1.3 The first phase release of Volume 4 comprises Modules ES, UG, AU, PB, AA, GR, CA, BC, CL, FC and EN.

ES-2.1.4 Other implementation deadlines are prescribed in Sections ES-2.2 to ES-2.4.

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ES-2.2 1 July 2006

ES-2.2.1 Unless otherwise agreed to in writing with BMA, investment firm licensees issued a license before 30 April 2006 must comply with the requirements contained in the first phase release of Volume 4 (Investment Business) by 1 July 2006, with the exceptions of Modules CA, BC and CL.

ES-2.2.2 Therefore, for investment firms already licensed when Volume 4 was first issued in April 2006, the first implementation date (unless additional transition arrangements have been agreed to in writing with BMA) is 1 July 2006. A later implementation deadline is given for Modules CA, BC and CL, on account of the wide scope of their requirements: see Section ES-2.3

ES-2.2.3 The first phase release of Volume 4 comprises Modules ES, UG, AU, PB, AA, GR, CA, BC, CL, FC and EN.

ES-2.2.4 Other implementation deadlines are prescribed in Sections ES-2.1, ES-2.3 and ES-2.4.

ES-2.2.5 On an exceptional basis, the BMA may provide for grandfathering or additional transitional measures for certain firms, where these are faced with difficulties in meeting their implementation deadlines, provided such arrangements do not cause excessive risk to investors or other licensees.

ES-2.2.6 Investment firm licensees who were licensed prior to the publication of Volume 4 (Investment Business) do not need to resubmit an application for a license.

ES-2.2.7 Investment firm licensees licensed prior to 30 April 2006 will have their license category, and the scope of their authorization, confirmed in an exchange of letters.

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ES-2.3 1 January 2007

ES-2.3.1 Unless otherwise agreed to in writing, investment firm licensees issued a license before 30 April 2006 must comply with the requirements contained in Modules CA, BC and CL by 1 January 2007.

ES-2.3.2 Investment firm licensees licensed after 30 April 2006, but before 31 December 2006, must comply with the requirements contained in the second phase release of Volume 4 (Investment Business) by 1 January 2007.

ES-2.3.3 The requirement in Rule ES-2.3.2 is in addition to the requirement in Rule ES-2.1.1. The second phase release of Volume 4 comprises the remaining Modules of Volume 4, not released in the first phase (i.e. Modules HC, RM, TC, GS, BR, PD, DP, CP, C1, C2, C3 and IF).

ES-2.3.4 Investment firm licensees issued a license after 31 December 2006 must comply with all the requirements contained in Volume 4 (Investment Business), from the date of issue of their license.

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ES-2.4 1 July 2007

ES-2.4.1 Investment firm licenses issued a license before 30 April 2006 must comply with the requirements contained in the second phase release of Volume 4 (Investment Business) by 1 July 2007.

ES-2.4.2 The requirement in Rule ES-2.4.1 is in addition to the requirements in Rule ES-2.2.1 and ES-2.3.1. The second phase release of Volume 4 comprises the remaining Modules of Volume 4, not released in the first phase (i.e. Modules HC, RM, TC, GS, BR, PD, DP, CP, C1, C2, C3 and IF).